

Message Text

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14-11

ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-10 IO-10 H-02 L-02 PRS-01

PA-01 USIE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01 SSO-00

NSCE-00 INRE-00 /100 W

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC IMMEDIATE 3657

C O N F I D E N T I A L MANILA 6979

FOR NAC AGENCIES

E.O. 11652: GDS

TAGS: EAID EFIN ADB RP

SUBJ: PROPOSED ADB SUPPLEMENTARY LOAN - FIRST AND SECOND
MINDANAO POWER PROJECTS (PHILIPPINES)

REF: A. MANILA 6714; B. MANILA 6273; C. MANILA 2641

SUMMARY: THE BOARD OF DIRECTORS OF THE ASIAN DEVELOPMENT BANK IS EXPECTED TO VOTE ON FINANCING COST OVERRUNS FOR TWO PHILIPPINE POWER PROJECTS ON MAY 27. THIS VOTE COMES WHEN OUR BILATERAL RELATIONSHIP WITH THE PHILIPPINES IS UNDER STRESS AND BEING REASSESSED BY THE PHILIPPINES IN THE LIGHT OF DEVELOPMENTS IN INDOCHINA. A NEGATIVE VOTE BY THE U.S. ON THIS FINANCING WILL UNAVOIDABLY HARM PROSPECTS FOR PRESERVING THE RELATIONSHIP WITH THE PHILIPPINES THAT OUR POLICIES FOR THE WESTERN PACIFIC AND EAST ASIA REQUIRE. THE MISSION STRONGLY RECOMMENDS THAT THE NAC INSTRUCT THE U.S. DIRECTOR TO SUPPORT THE OVERRUN FINANCING. END SUMMARY

1. THE BOARD OF DIRECTORS OF THE ASIAN DEVELOPMENT BANK IS
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SCHEDULED TO CONSIDER ON MAY 27 THE RECOMMENDATIONS OF THE

PRESIDENT OF THE BANK THAT THE BANK FINANCE A MAJOR PORTION OF THE FOREIGN EXCHANGE COST OVERRUN FOR TWO POWER PROJECTS ON THE ISLAND OF MINDANAO IN THE PHILIPPINES. THE RECOMMENDATION OF THE BANK'S PRESIDENT FOLLOWED CAREFUL REVIEW BY THE BANK'S STAFF OF THE JUSTIFICATION FOR THE INCREASED FINANCING AND THE SUCCESSFUL EFFORT OF THE BANK TO OBTAIN NEARLY THIRTY PERCENT OF THE REQUIRED FOREIGN EXCHANGE FINANCING FROM OTHER SOURCES. THE GOVERNMENT OF THE PHILIPPINES WILL FINANCE THE ENTIRE LOCAL COST OVERRUN FOR THE TWO PROJECTS.

2. THE ADB BOARD'S SCHEDULED CONSIDERATION OF FINANCING OVERRUNS ON THESE TWO PHILIPPINE PROJECTS COMES AT A TIME WHEN PHILIPPINE-US BILATERAL RELATIONS ARE UNDER STRESS. RECENT DEVELOPMENTS IN INDOCHINA HAVE COMPELLED THE U.S. TO RELY UPON FACILITIES IN THE PHILIPPINES TO A DEGREE WHICH HAS REACHED TO THE EXTREMITIES OF PHILIPPINE OBLIGATIONS UNDER OUR TREATIES WITH THEM AND HAS INEVITABLY IRRITATED PHILIPPINE SENSITIVITIES. AT THE SAME TIME THESE STRAINS HAVE OCCURRED, THE PHILIPPINES HAS FELT COMPELLED TO REASSESS ITS STRATEGIC RELATIONSHIP WITH THE U.S. IN THE LIGHT OF RECENT EVENTS IN INDOCHINA.

3. IN THE PROCESS OF SUCH REASSESSMENT THE PHILIPPINES WILL TAKE CARE TO ASSESS THE LIKELY COURSE OF FUTURE U.S. POLICY TOWARD THE WESTERN PACIFIC AND EAST ASIA. PRESIDENT FORD AND SECRETARY KISSINGER HAVE SPECIFIED IN UNMISTAKEABLE TERMS THE U.S. INTEREST IN A CONTINUING CLOSE RELATIONSHIP WITH THE PHILIPPINES. IT IS IMPORTANT AT THIS TIME THAT THE U.S. MAKE EVERY POSSIBLE EFFORT TO ENSURE THAT OUR ACTIONS ON SPECIFIC ISSUES OF IMPORTANCE SUCH AS THE COST OVERRUNS IN QUESTION BE IN HARMONY WITH OUR STATED POLICY.

4. IN A PREVIOUS MESSAGE THIS MISSION HAS INDICATED ITS SUPPORT FOR THE ACTION RECOMMENDED BY THE ADB PRESIDENT. THE DEVELOPMENTAL GROUNDS FOR THIS RECOMMENDATION ARE EVIDENT IN THE RECORD. THEY FLOW FROM THE U.S. SUPPORT FOR THE PHILIPPINE CONSULTATIVE GROUP AND EXTEND TO OUR RURAL ELECTRIFICATION PROJECTS IN MINDANAO. BUT THERE IS NO WAY THAT THE SIGNIFICANCE OF THE POSITION OF THE U.S. GOVERNMENT ON THE BANK'S RECOMMENDATION CAN BE CONFINED TO THE MULTILATERAL DEVELOPMENTAL FRAMEWORK. THE U.S. HAS TRADITIONALLY SUPPORTED THE

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BANK PRESIDENT'S RECOMMENDATIONS TO THE BOARD OF DIRECTORS REGARDING MAJOR PHILIPPINE PROJECTS. TO DEPART FROM THAT TRACK AT THIS TIME, PARTICULARLY IN THE ABSENCE OF SIGNIFICANT SUPPORT FOR THE U.S. POSITION FROM OTHER DIRECTORS OF THE BANK, WOULD ENCOURAGE THE PHILIPPINES TO DRAW CONCLUSIONS ABOUT THE DEPTH OF U.S. COMMITMENT TO THE PHILIPPINES WHICH WOULD DAMAGE OUR PROSPECTS FOR PRESERVING ELEMENTS OF THE BILATERAL RELATIONSHIP OF ENDURING INTEREST TO US. CONSEQUENTLY, THE MISSION

RECOMMENDS STRONGLY THAT THE NAC INSTRUCT THE U.S. DIRECTOR TO
SUPPORT THE RECOMMENDATION OF THE BANK PRESIDENT REGARDING
ADB FINANCING OF FOREIGN EXCHANGE COST OVERRUN ON THESE
PROJECTS.
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